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International Market Selection

Applied to a Foreign Direct Investment of a SME

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Abstract

The work project “International Market Selection Applied to a Foreign Direct Investment of a SME” seeks to find a solution to the organizational challenge of Boyens Backservice GmbH, a German SME, to identify, evaluate and select most preferable markets for a foreign direct investment. The method follows a three-step approach. First core markets are identified, which are then evaluated to the general FDI feasibility. This is concluded by an in-depth market analysis of the top two identified markets. The outcome yields the Czech market as the most preferable.

International Market Selection; Foreign Direct Investment; SME; International Business

1. Introduction

The world of today’s business is characterized by a high degree of internationality. This opens greater opportunities, empowered through fewer barriers, to capture additional value for firms when their domestic markets become gradually more saturated. But the additional internationalization possibilities also increase competitive pressures since many firms must compete on a global scale now. Various forms and approaches of internationalization are existent, reaching from simple exports to foreign direct investments (FDI). Besides enhanced competitive pressure, internationalization especially in form of a FDI bears high risk due to resource commitment. Since foreign markets differ in potential when considering a FDI, a systematic international market selection process is key to lay a solid groundwork for internationalization activities. In this work project, the internationalization approach of “Boyens Backservice GmbH” (referred to as Boyens in the following) is subject to examination. Boyens is one of the many German “mid-caps” companies which are traditionally niche players. It operates in the industry of bakery supply where spray, dosing and release solutions form its core business. Boyens employs 36 people and generated a turnover of 16.5 million Euros in 2015. Its competitive advantage rests on its capability to

deliver unique customized solutions above industry standard. Currently, Boyens does business in over 45 countries worldwide, but almost solely based on exports. This internationalization strategy can be considered rather reactive, following an unplanned approach. This phenomenon is quite common for small to medium enterprise (SME) since limited resources constrain their internationalization efforts. The reactive strategy minimizes risk, since no specific investment in the market is needed. Simultaneously the products' margins are reduced due to contributions to intermediates. After several successful years of growth, Boyens has reached a phase where capturing additional value via exports is becoming gradually more difficult and marginal returns of growth decrease. To spur growth Boyens faces the organizational challenge to systematically and proactively penetrate the foreign markets and increase sales. Boyens aims at a balanced approach: increasing its level of investment through systematic FDIs into selected markets, while relying on the export business model in the less FDI preferable markets. The central question Boyens seeks to answer is not if, but where to locate the FDI, which they want to be in the form of an own Sales & Marketing office. Boyens considers to pursue the FDI in the EU¹. The research question which can be derived from this challenge is: *Which of the EU markets Boyens is doing business in are most preferable for a foreign direct investment in the modality of a Marketing & Sales office?*

In correspondence with the company, a market selection strategy which first systematically identifies and evaluates core markets and then scans them regarding potential FDI, is subject in this work. Core markets, which are defined by strong revenues and a reasonable market size, constitute the basis for possible FDI pursues. The aim is to isolate the markets which are most suitable for a FDI for Boyens. To develop a selection and evaluation method the relevant literature is reviewed. This suggests to create a multi-step model which evaluates the

¹ Only EU markets which are already in Boyens country set are considered. The following markets have been excluded due to insignificance or lack of data: Luxemburg, Estonia, Island, Ireland, Latvia, Slovakia and Croatia. Further, UK is excluded due to the uncertainties imposed by the pending Brexit.

markets with respect to various dimensions. The report is focused on the firm specific challenge and seeks to offer a solution through close collaboration with the Managing Director, Sven Grote (see Appendix 1 for a detailed timeline).

2. Literature Review

In the following a literature overview regarding the most applicable models and tools which guide a company towards a systematic selection of international markets is given. Additionally, more specific approaches regarding market selection in the context of FDI are examined. Throughout the streams of literature common ground exists that the process of evaluating potential markets systematically follows a sequential scheme. While some researchers suggest a two-stage model (Gaston-Breton and Martin-Martin, 2011) the majority agrees on a three-stage model (Cavusgil, 1985; Kumar, Stam and Joachimsthaler, 1994; Cavusgil, Kiyak and Yeniyurt, 2004). Both approaches share that they move from a macro-indicator level to a more granular micro-level within their analysis. Other models like the trade-off model exist (Papadopoulos, Chen and Thomas, 2002), but are neglected for this work, because they mainly focus on export strategies.

In general, the first phase of a systematic approach constitutes the preliminary screening (Cavusgil 1985, 2004). This is based on macro-level indicators with the objective to reduce the number of countries within the initial set and identify countries which qualify for further examination. In this phase two applicable techniques are suggested: country clustering and/or country ranking (Cavusgil et al., 2004; Sarakaya, Eckman and Hyllegard, 2007). Country clustering can be neglected for this work, since it is more suitable for firms attempting to standardize their offering across various markets as it “provides insights into structural similarities among markets” (Cavusgil et al., 2004, 615). Country ranking on the other hand allows to identify the “best possible market to enter” (Cavusgil et al., 2004, 615). Cavusgil et al. (2004) identify political, economic and socio cultural dimensions which provide

information about the aggregated market potential based on macro-economic indicators and weight the underlying variables. Furthermore, it is recognized that managers should add dimensions and alter the weights according to their product and company specifications. However, this approach can be criticized for lack of product-specificity and for its exposure to subjective bias (Cavusgil et al., 2004). After basing the first step on macro-economic indicators, a broad stream in literature agrees on increasing the level of granularity by focusing on more micro-economic indicators. In this step, the aim is to further reduce the number of potential markets by assessing industry-specific indicators. These indicators include market access, growth and level of competition among others. By assessing the industry market potential of each identified target country for the short to medium term the outcome yields a reduced list of target countries (Cavusgil, 1985). A major weakness, characteristic for this step, is the requirement for industry- and firm-specific data for all considered markets. The availability and quality of the data is often limited (Kumar et al., 1994). According to literature the final stage of the selection process focusses on firm-specific information (Cavusgil, 1985, Kumar et al., 1994). The firm-specific information determines the final selection of which country to enter from the short list. It needs to be mentioned that most research focusses on market selection in the context of firms which seek to start business in markets they have not yet entered. Further, Papadopoulos and Martin-Martin (2001) criticize that in international market selection research there is a lack considering FDI specific selection. Especially when not solely focused on establishing a production site abroad. It is only noted, that unique dimensions should be considered (Albaum, Strandkov, Duerr and Dowd, 1994). This identified research gap and the fact that the described normative models do not perfectly mirror the practice, call for a need of building an own model for the case of Boyens presented in the next step.

3. Methodology

The objective of this work is to select the most preferable markets in the EU with regard to pursuing a FDI in the modality of a Marketing & Sales office. To achieve this objective a methodology is crafted in the following (Appendix 2). The case study approach rests upon the identified findings in literature and is based on quantitative and qualitative data. The underlying methodology follows, as most researchers (Cavusgil et al., 1985, 2004; Papadopoulos et al., 2011) suggest, a sequential three-step approach with gradually increasing granularity and specificity of information. The raw data gathered from various sources is analyzed using Excel.

3.1 Data Collection

To perform the analysis, primary and secondary data both in qualitative and quantitative form was gathered. The primary data was collected through direct contact with representatives of the company, namely Sven Grote, Managing Director of Boyens and Stefan Gering, Export Sales Manager. The process of primary data gathering included, all in German language, five phone calls, 15 exchanged emails including questionnaires and one full interview day (18th of August, 2016) at Boyens headquarters in Ibbenbüren, Germany. The data collected from the phone calls and personal interviews was merely of qualitative nature and collected via notes and not recorded. The email exchange focused mainly on quantitative data including print-out documents about revenue and volume data, year of market entry etc. (Appendix 3). The total period of information exchange and data gathering lasted six months (July to December 2016). The remaining necessary secondary data were retrieved from several databases of international institutions, namely Euromonitor (country reports on baked goods) and the Heritage Foundation. Using the raw data in Excel, the countries are ranked by developing an index by a technique described below.

3.2 Analysis Design

The first stage systematically identifies the core markets of Boyens by evaluating afore identified criteria. That is those markets in which business opportunity is large enough to further exploit it through a FDI. Therefore, this identification process lays the groundwork for any future systematic internationalization activity. Core markets are defined on the one hand by a strong sales and revenue record and on the other hand by a stable and strong demand in the present and future. The reasoning behind these two main aspects is that Boyens prefers to base its international investments only in markets in which it has a stable position. Besides local market knowledge is needed to mitigate the risk of losses. Further, since the investment horizon is the medium- to long-term, the current and future demand in the specific foreign market must be stable as well. Against the background of these considerations, the selection criteria incorporate the company performance and experience, potential of the market for baked goods, and the consumption capacity within the market. Following the characterization of core markets, the criteria are weighted in accordance with Boyens preferences. This enables to identify the core markets that are defined to be the top 25% of countries ranked, a definition set by Boyens. In the table below, the weights defined by Boyens for each dimension are presented.

Table 1: Overview of 1st Stage Dimensions and Weights

Dimension	Market Size	Market Growth	Consumption Capacity	Market Experience	Performance
Weight	30/100	10/100	20/100	10/100	30/100

The second stage dives deeper into a FDI focused investigation, analyzing the afore identified core markets. The objective is to isolate the top two markets with the highest general investment potential. The high potential core markets are thus narrowed down by assessing investment relevant criteria. This is done by elaborating on three dimensions: competitive environment, economic freedom and political stability. Boyens pays special attention to the competitive pressures within the identified markets to avoid fierce reaction by competitors.

The economic conditions are an important aspect for Boyens considerations to assess the general investment conditions. Further, Boyens places special emphasis on selecting a market which offers a stable environment allowing to conduct a FDI smoothly. In the following table the dimensions and the respective weights, set by Boyens, are displayed.

Table 2: Overview of 2nd Stage Dimensions and Weights

Dimension	Competition	Economic Freedom	Political Stability
Weight	40/100	40/100	10/100

The first and second stage rest upon the ranking technique introduced by Cavusgil (1985, 2004), which quantifies and ranks the market potential of considered countries by developing an index². Using this technique allows to set up an index by weighting the scores of each dimension for each country, reaching a final score. As the ranking follows a relative measure the scores of the countries are distributed between 1 and 100, where the country with the highest value on the variables within a dimension receives score 100, the worst 1, and all others are aligned in-between relatively. This serves as the ground for the selection of the core markets in the first, and the potentially FDI attractive markets in the second step. The second stage results in a selection of two markets, which will then, in the third step, be subject to an in-depth market based analysis of the competitive environment, industry and intermediate structure. This step focusses on the potential of a Marketing & Sales office, the FDI modality preferred by Boyens. This gives practical application of the market selection process for Boyens. The outcome of this three-stage process indicates the most preferable market to pursue the investment.

² Since the raw data of the individual variables within each dimension differ in scale, the data is standardized into z-scores to avoid scale effects and artificial weighting. Afterwards, the data is converted to a 1-100 scale applying the following formula: $X'_{ij} = \left[\frac{X_{ij} - \min_i}{R_i} * (99) \right] + 1$, where X'_{ij} denotes for the final scaled value of country j on dimension i ; X_{ij} represents the average score of country j on dimension i ; \min_i denotes for the minimum value of dimension i and R_i is the range of dimension i . This procedure allows for better interpretation purpose and for minimization of effects variance within dimensions. After calculating the score for each country of each dimension, the dimensions are multiplied by a weight, which is set according to Boyens preferences, in order to reach a final score of each country (following the technique by Cavusgil, 1997).

3.3 Measurements

To identify core markets, Boyens position on the above-mentioned dimensions needs to be quantified. Thus, the underlying variables of the dimensions are presented and justified. The dimension of market size is measured by the variables sales of baked goods in 2015 and 2020 in terms of volume and value (for each country the data is extracted from a market report on Euromonitor). This serves as a good proxy to estimate the market size since Boyens products can be used in the production of any of those goods. Both terms are meaningful, as volume indicates how large the market is in absolute numbers and value allows to draw conclusion about the margin. To illustrate this, in Bulgaria the sales of baked goods in volume in 2015 amounted to 639.4 thousand tons presenting a total value of 733.45m EUR. In contrast, volume of sales in Denmark only yield 257.8 thousand tons but the resulting value was, with 1189.13m EUR, much higher. The dimension of market growth reflects the underlying growth of each market from 2015 to 2020 and rounds up the assessment of the market potential in foreign markets. The dimension of consumption capacity is measured by per capita sales of baked goods, which gives insight about the per capita consumption in 2015 and 2020. This sets the volume sold in perspective to the population and draws a clearer picture about the market size in terms of volume. The year of market entry measures the market experience and the corresponding unique knowledge about the specific foreign market. For this purpose, it is assumed that the longer Boyens operates in a market, the more knowledge it has accumulated. The last dimension of performance is measured by the accumulated revenue and volume for each country over a period of five years, presented as a share of total revenue and volume of the whole country set in that period. This gives insight about the relative share each market contributed to the overall revenue or volume in this context.

To measure the general FDI-attractiveness of the core markets, the following variables are used in the second stage. In order comply with the requirement of Boyens to avoid a market

characterized by fierce competition, a variable accounting for the competitive pressure within a market is considered. The values for this variable are collected via a questionnaire in which the Managing Director of Boyens indicates his perception about competitive pressure in the respective core markets. This subjective measure is sufficient since it should only indicate a broad picture of competitiveness at this stage. To measure the economic circumstances in the core markets, seven indices, which cover the most relevant economic aspects when entering a market via a FDI, are selected (Appendix 4). The business freedom index indicates the ease of doing business, which is of special importance in Boyens' context. Boyens furthermore seeks to maintain a certain level of flexibility to changing circumstances. Therefore, emphasis is placed on the labor freedom index which represents employment conditions. Third, the investment freedom index is important since it accounts for foreign capital inflow and regulation in the country. Next, the fiscal freedom index gives information about the taxation which directly affects profits. The financial freedom index indicates how efficiently the financial sector is performing. A less regulated sector can be beneficial to Boyens when they need loans to finance operations abroad. Further, the monetary freedom index measures prices stability and price controls, which allow for stable business conditions. At last, the freedom of corruption index provides a measure of uncertainty and insecurity in business relationships, which both determine the choice of location. The last requirement of Boyens is covered in the dimension of political freedom. To secure the long-term investment horizon of the FDI, the political freedom index gives insight about the likelihood of rapid government changes or social unrest. These uncertainties could harm the long-term success of Boyens FDI. The index of regulation quality completes this dimension and informs on the political business environment.

For the in-depth analysis in the third step, specific data is retrieved from questionnaires sent to the Managing Director. Specifically, the competitiveness aspect is defined by the number

of competitors and their relative positioning in terms of price and quality to Boyens. Further, the number and perceived market power of the intermediates is assessed to evaluate Boyens opportunities to operate their own distribution. At last, the industry structure is measured by the number and size of bakeries as end-consumers of the product.

4. Presentation of Results

In the following, first the internationalization strategy pursued by Boyens is analyzed briefly. Special attention is paid to its competitive advantage. By doing so, the readiness to go abroad via FDI is evaluated in the context of the Uppsala Model. Facing the decision to engage in FDI, it needs to be ensured that a competitive advantage held by Boyens can be sustained when transferred to a foreign market through an investment. Subsequently, the results from the market evaluation and selection process are presented and discussed for each stage.

4.1 Internationalization Strategy & Competitive Advantage

As indicated, Boyens operates in the bakery supply industry and follows a holistic solution-oriented strategy to its customers. It has specialized on the manufacturing and consulting of application technology for dosing, releasing and spraying and on the production of materials used in those processes (see brochure for illustrations in the appendix). Boyens' products are designed for industrial, in-store and artisanal bakeries. Boyens has followed a strategy of organic growth by gradually increasing the level of international involvement. The expansion path can be demonstrated on basis of the Uppsala framework (Johnson and Vahne, 1977), which is a beneficial tool when analyzing the international expansion of SMEs. Founded in 1979, Boyens first collected experience in the domestic market before setting its first international footprint in year 1979 in Austria. In the following phase, Boyens expanded its international involvement, first in the EU and later to more distant markets as the Middle-East. Until now, Boyens has entered new markets on a reactive base by getting in touch with

new customers via fairs and exhibitions. Boyens has been selling their products to an intermediate and the end-consumer could purchase the product there³. The now following third phase focusses on strategic FDIs in preferable markets in the EU and presents the central issue tackled in this work. This step seems feasible since Boyens' revenue has been growing constantly over the last five years on an average of 5.7% per year. Next to a solid financial basis, Boyens has already collected valuable international experience.

To display Boyens strategy under the aspect of global readiness, its competitive advantage is dissembled in the following and the main drivers of value are identified. According to the resource-based-view, a competitive advantage stems from the ability of a firm to develop distinctive competencies in form of resources or capabilities, which are superior to the competition and not easy to replicate either (Collis and Montgomery, 2008). Boyens possesses the resource of proprietary know-how in the form of research and production. This is utilized through the capabilities of bringing a product faster to the market and simultaneously setting constantly new industry standards. These resources and capabilities form Boyens distinctive competencies which allow for innovation, quality and customer responsiveness. These competencies are levered to form a differentiation advantage in its products. Consequently, and in accordance with its distinctive competencies, Boyens pursues a focus strategy on differentiation (Porter, 1985) to sustain its competitive advantage and position itself in the competitive landscape. Boyens differentiation strategy targets a very narrow segment of customers characterized by having less bargaining power due to its relative small volumes. At the same time Boyens enjoys a high degree of customer loyalty since its products are inevitable for the clients' final products. Regarding the main drivers of value, Boyens aims at providing superior value to its customers from unique own value-adding activities and activities performed in the downward vertical value chain. Three main

³ The only exceptions are Austria and Chile where Boyens operates with an own sales force but without official offices.

activities can be identified: inbound logistics, operations and service. Boyens selects its suppliers carefully to ensure the highest quality. The suppliers of raw materials for the food-related products, namely the releasing spray, need to guaranteed that their supplied materials are allergen free, GMO-free, halal and kosher products which are additionally not based on mineral oil. Further the strong relations with its suppliers allow for smooth manufacturing processes. The second value creator is operations. Boyens production process allows for rapid responses. Conformance to customer specifications allows for tailored solutions to fulfill customized demand. Besides, the superior operations ensure a low product defect rate and long-term cost reductions for customers. This can be well exemplified when considering the products of baking spray, which are six times more efficient than conventional products. Lastly, much value for the customers is created by the service. Boyens offers its clients a broad consulting service reaching from technical assistance in the purchasing phase over timeless repair and maintenance service to on-site product training.

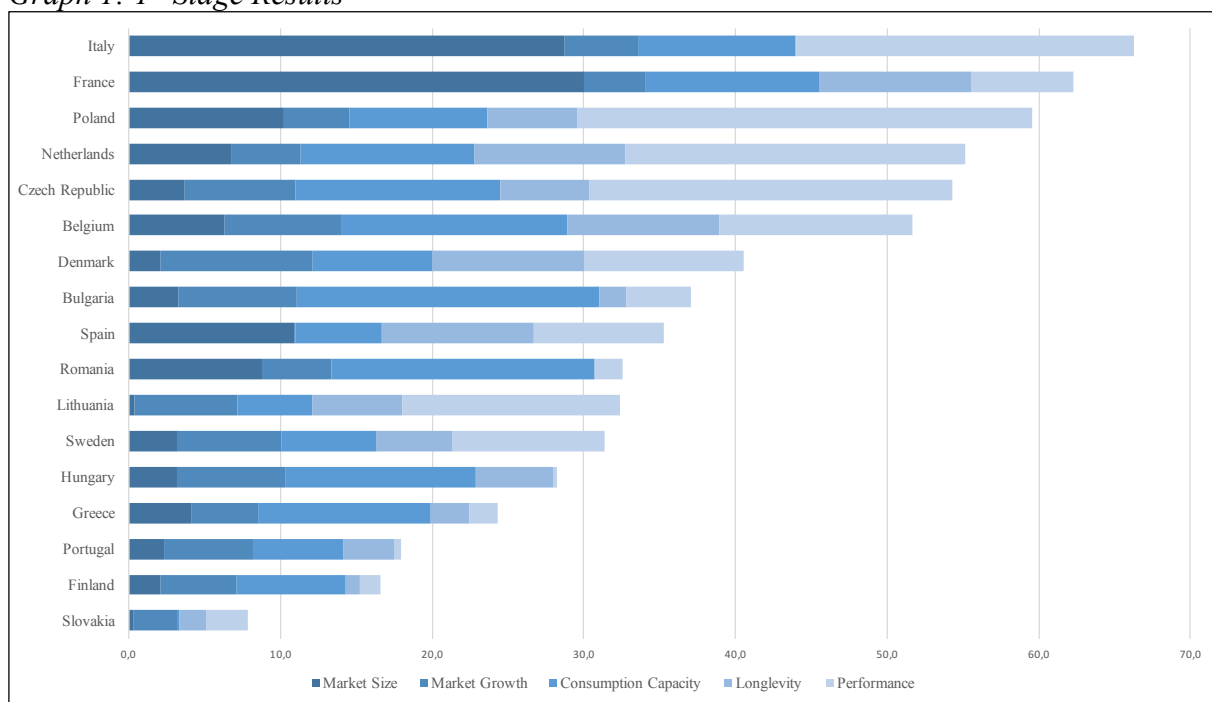
In conclusion, Boyens offers unique value to its customers by pursuing a value approach with its differentiation strategy formed by deeply organizational embedded distinctive competencies. Due to its unique value assured by the highest quality standards and the collected international experience, Boyens passes the test of being globally ready since it outperforms its competition. Opening a Marketing & Sales office can even further spur Boyens' competitive edge. Direct appearance in the market can increase the market penetration and spur sales. The value proposition for its clients can be transferred more precisely by transmitting the advantages of Boyens' products directly. Therefore, Boyens competitive advantage fits the proposed international approach.

4.2 Results of International Market Selection Process

4.2.1 Identification of Core Markets

The analysis conducted yields the weighted overall ranked scores of the markets (Appendix 5). To be classified as a core market, a market needs to fall into the top 25% of the ranked markets. Resulting from the analysis, these are all markets which exceed the threshold value of 54 (75th percentile) in the ranking, namely Italy (66), France (62), Poland (60), the Netherlands (55) and the Czech Republic (54).

Graph 1: 1st Stage Results



The results yield that the two largest markets in terms of population are at the top. France and Italy have by far the highest weighted scores in terms of market size with 30 and 28.7 respectively. Poland as the third ranked market only has a weighted score of 10.7 on this dimension. While almost 70% of the considered markets are expected to decrease in terms of volume in the next five years, the two top markets exhibit relatively stable growth rates. Both, Italy and France, are expected to decrease only moderately by 2.6% and 2.8% respectively. The most significant decrease in volume will be experienced in Spain and Slovakia with a negative growth of 7.2% and 8.4% until 2020. This is due to changes in consumption patterns.

Despite having almost the same market size as Poland, the drop in growth, both in volume and value, accounts for the relatively low overall score of Spain (35). In terms of growth in value, the Italian market is expected to grow by 1.2% in the next five years. This follows a common pattern which can be observed from the results. 12 of 17 considered markets are expected to grow in value in the upcoming five years. Surprisingly, France is within the group of countries showing an expected decrease. Denmark, Lithuania and Bulgaria are expected to experience a value growth of around 10% until 2020. Among the identified core markets, the Czech Republic achieves the highest weighted score in the dimension of growth with 7.3. This offsets its relatively low weighted score of 3.7 in the market size dimension compared to the other core markets. This can be explained by the smaller population compared to France, Italy or Poland.

Considering the dimension of per capita consumption, the largest weighted values are scored by Bulgaria (20) and Romania (17.4). Despite the high per capita consumption of 99kg in Bulgaria and 90kg in Romania, the relatively low value of sales makes these markets less attractive. All core markets are characterized by a per capita consumption of baked goods above 50kg. The Czech Republic leads with an average consumption of 70kg resulting in the highest weighted score (13.5). Regarding the market experience, the analysis reveals that in each of the core markets Boyens has at least ten years of experience, except for Italy which they entered relatively recently in 2010. Despite this short period of operations in Italy, the performance is relatively high in this market yielding, with a weighted score of 22.2, the fifth highest score of that dimension. This finding can be explained when considering that Italy is characterized by a large market size and a strong consumption capacity. In addition, newly entered markets always show high revenue numbers, since the more expensive technology equipment precedes sales of the constant spraying and releasing business. Hence, experience in a market is not always an indicator for a strong performance. This can be illustrated when

considering the Hungarian market, which has been entered at the same time as the Czech market but exhibits a by far lower performance. Considering the performance of the core markets, an apparent result is the relatively low score of France in that dimension (6.7), which is below the average score of this dimension. Solely considering this dimension, the French market does not seem to be very attractive, but the high score in the market size and the corresponding potential offsets the relatively weak current performance. Poland on the other hand achieves the highest weighted scores on performance (30) which offsets its relatively lower scores in the other dimensions. Another interesting finding is that Poland and the Czech Republic both have higher values in terms of volume sold than in value generated. This leads to the conclusion that performance is rather driven by high volumes than high selling-prices. The Dutch market in contrast shows the reversed finding, it accounts for 8.87% of the total volume sold in the past five years but for 12.88% of the total value generated during that time. This finding can be explained by the higher wholesale prices Boyens can generate in the Netherlands due to a higher price level.

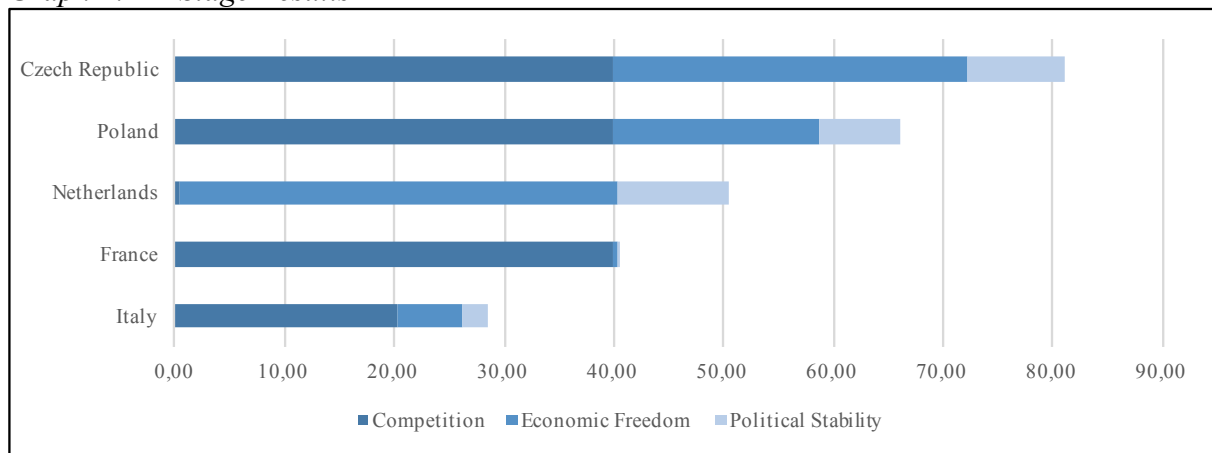
In sum, it can be drawn as an interim conclusion that the core markets offset lower scores on one with higher scores on another heavy weighted dimension. In the Polish, Czech and Dutch market, strong performance offsets lower scores in market size. In contrast, a high weighted score in the dimension of market size balances less strong results in the dimension of performance in France. The exception is the Italian market which is characterized by high weighted scores in both heavy weighted dimensions.

4.2.2 General FDI-Focused Attractiveness of Core Markets

To comply with Boyens objective to narrow down the core markets to the two most promising in terms of FDI feasibility, the results of the second step are presented in the following (Appendix 6 for dimension scores). The analysis yields that the top two markets are the Czech Republic and Poland with an overall weighted score of 81 and 66 respectively. The outcome

is somehow surprising, since not the largest in size (France and Italy), but smaller to medium size markets are on top. In the following the results are elaborated in detail.

Graph 2: 2nd Stage Results



Considering the first dimension of competitive pressure, two main tendencies can be identified. First, in France, Poland and the Czech Republic Boyens faces only moderate competitive pressures, which do not differ significantly in terms of participants and rivalry. This is represented by the average weighted final score of 40 on this dimension for all three. Second, the competitive pressure is higher in Italy and the Netherlands. Compared to Italy, which only scores a weighted value of 20.2 in the dimension, in the Netherlands the markets are even more competitive with a respective score of only 0.4. In Italy, the main source for the increased competitive pressure stems from substitutive products in the application equipment business area, which are produced by local firms which benefit from the strong local networks and shorter transportation routes. In the Netherlands in turn, Boyens faces strong competition on both of their business areas, equipment and baking materials, because local companies also benefit from strong local relationships and networks.

When considering the results of the second dimension, economic freedom, the analysis reveals diverse outcomes. The Netherlands achieve an overall weighted score of 40 by having the highest scores in all dimensions except for labor freedom and monetary freedom. Of the core markets, it stands out by transparent and efficient regulations allowing companies to

open business with minimum capital requirements within only five days. Further entrepreneurial activities are spurred through a tight control on corruption. Overall, the Netherlands represent very attractive economic circumstances for Boyens to pursue the FDI. But the strong competitive forces in the markets reduce the overall attractiveness heavily. The results of France (0.4) and Italy (5.9) indicate less favorable conditions for the pursuit of the FDI. The reasons for this finding are various. The low score of France is mainly attributable to the highly regulated labor conditions. France has the highest average labor cost of all core markets (34.6€/h) and the lowest weekly work time with 35 hours (Eurostat, 2015). Besides, a high mandatory severance pay further reduces attractiveness (Deloitte, 2015). France also has by far the lowest score on the fiscal freedom index resulting from the highest corporate tax rate with 34.3%. In contrast the Czech Republic has a corporate tax rate of only 19% (KPMG, 2016). The Italian market also faces disadvantageous conditions for companies. Like France, the high mandatory severance pay is an obstacle for many firms since it allows flexibility only at a high cost (Deloitte, 2015). The Italian market is furthermore characterized by significant corruption, which sets foreign direct investment under unwanted uncertainty. In addition to that it reaches a relatively low score on the financial freedom index. Due to the debt crisis, Italian banks face many regulations and interferences from the government, which makes it difficult for businesses to receive credits. Overall the current economic circumstances are not favorable for Boyens to pursue a FDI in France or Italy. The top two ranked markets, the Czech Republic and Poland, have lower scores (32 and 18) on the economic freedom dimension than the Netherlands. But in contrast to France and Italy they still reach relatively high scores. The score of the Czech Republic is unexpected, but it stands out with the highest individual scores in the variables labor freedom and fiscal freedom. The employers friendly score of labor freedom is based upon the relatively low average pay per hour of 9.40 € combined with a 40-hour working week and lower mandatory severance payments (Eurostat,

2015). In terms of fiscal freedom, the Czech Republic has the lowest of all corporate tax rates of all core markets together with Poland (KPMG, 2016). These two employer friendly variables can offset the second lowest corruption freedom after Italy. Poland scores do not reach a leading nor a lowest score in any of the individual variables measured to determine the dimension. But it shows similar traits as the Czech Republic in relatively low costs of labor and a low corporate tax rate.

The last dimension of political stability results in the following findings. There exists a gap within this dimension between the top three markets and the last two of the final ranking. Opposed to the top three markets, France and Italy both face inefficient regulation of the private sector mainly by burdensome bureaucracy and regulations which hinder entrepreneurial activities. Also in terms of political stability these two markets show significantly lower scores than the others, indicating a higher risk of social unrest, terrorism or unwanted government interference.

Overall it can be concluded, that the Netherlands would be the most preferable country in terms of economic and political freedom, but the fierce competition within that market reduces the attractiveness significantly. The Czech Republic and Poland have moderate economic freedom scores but combined with the less competitive environment these two markets are more suitable for Boyens to pursue the FDI. France and Italy on the other hand are not attractive enough for investors since the economic circumstances and regulations do not facilitate foreign investment.

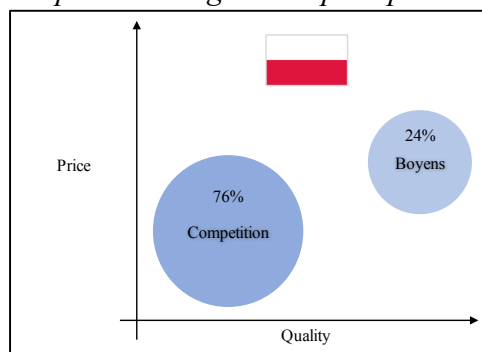
4.2.3 In-Depth Analysis of Top Two Markets

After isolating the two most suitable markets for FDI from the set of core markets, the last stage of the selection process focusses on a more in-depth market analysis. This stage centers around specific Marketing & Sales aspects when considering the FDI. Three main aspects are

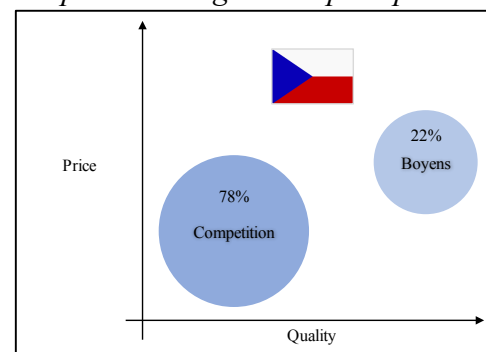
analyzed: competition, market-structure of end-customers and the existing intermediate structure.

Beginning with a more detailed analysis of the competition, Boyens position in Poland and in the Czech Republic is analyzed by the means of a strategic group map. As already mentioned in the second stage, Boyens faces moderate competitive pressures in both markets. This finding is underlined by the outcomes of the strategic group analysis, which do not indicate a significant difference between the markets. According to Boyens in both markets the main competitors are similar in terms of product quality and price, therefore they can be grouped.

Graph 3: Strategic Group Map PL



Graph 4: Strategic Group Map CZ



The results of the analysis reveal that in both markets Boyens has a significant distance to its competition, which provides them a unique position in the market and makes it only possible for the competition to reach that position at high cost and effort. The commonalities of these two markets are also evident in terms of market share. According to Boyens' information in both markets their share is around 20%. In conclusion, the competitive situation is indifferent in both markets when opting for the one or the other. Further, the strategic group map demonstrates the unique niche in these markets based on Boyens' competitive advantage prior elaborated.

Next, the results of the analysis of the market-structure of bakeries are presented. This represents a relevant aspect for the market selection regarding a Marketing & Sales office, since it gives insight about the dispersion of clients and their power. A rather fragmented market is more difficult to cover and needs an extensive network. In contrast, a more

concentrated market structure allows for facilitated access to clients but at the same time indicates more bargaining power of clients. As for the competition, the end-client structure for Boyens' products is indifferent in both markets. In Poland and in the Czech Republic the market for baked goods is highly fragmented. The markets are dominated by small artisanal bakeries while large industrial bakeries or in-store bakeries represent only the minority. The fragmentation can be illustrated by the fact that in 2015 in Poland 65% of the value in sales of baked goods stemmed from small bakeries (Euromonitor country report Poland, 2015). In conclusion, the structure of both markets is similarly highly fragmented. This makes a selection of a market based on only this criterion not meaningful. Though, it needs to be mentioned that this structure has implications for the future design of the FDI, since it demands e.g. a large sales force to cover all clients.

The third relevant aspect is an analysis of the existing partners of Boyens in the markets. This aspect is crucial since opening a Marketing & Sales office leads to disintermediation. Thus, the preferable market should yield conditions which allow to pursue the sale of the products without intense competitive responses by the existing intermediates. The Polish market is characterized by one major distributor who serves around 75% of the market. According to Boyens, this intermediate firm distributes also the competitions' products. In sum, this intermediate possesses strong market power. In case of disintermediation a heavy response is likely. By leveraging its extensive existing network and pricing the competitions' products at such a low price it can attempt to push Boyens out of the market to not further lose market share. This scenario illustrates the high risk that such a foreign direct investment holds in the Polish market. Hence, it makes it rather undesirable for Boyens to open a Marketing & Sales office there. In contrast to the Polish market, in the Czech market four medium size distributors operate. As in Poland they also sell competitors' products, but the market power is less concentrated. Since the intermediates are in competition to each other it is not likely

that they would coordinate to form a strong competitive response. In addition, in the Czech market Boyens market share is distributed over all intermediates. Therefore the loss of revenue would not provoke heavy responses. In sum, the in-depth analysis and evaluation of the Polish and Czech market yields a clear outcome. Due to the differences in power of intermediates in the respective markets, the Czech Republic is preferable to Poland because of the reduced risk of strong competitive response when opening a Marketing & Sales office.

5. Conclusion, Limitations & Directions for Further Research

To identify and select the most preferable EU market to pursue a FDI a three-stage approach was crafted. In the selection process, first the core markets were identified, and then evaluated with respect to general FDI attractiveness. The isolated top two markets, the Czech Republic and Poland, were then subject to an in-depth analysis by evaluating specific Marketing & Sales criteria. The outcome of the market selection yields that the Czech market is the most preferable for Boyens to pursue the FDI. Despite a relatively small market size, the Czech market is characterized by a strong sales and revenue performance of Boyens and a strong and stable consumption capacity. Furthermore, the Czech Republic scores highest in general FDI attractiveness in the set of core markets. This is especially due to low corporate tax rates and favorable labor regulations amplified by moderate competition. In direct comparison to Poland the Czech market bears the clear advantage of a less concentrated intermediate structure. Opening an office in the Czech Republic increases customer value, thus the full potential of Boyens competitive advantage can be exploited.

To account for the robustness of the outcome, limitations of the analysis must be outlined. They can be clustered in technical and data-based limitations. The employed ranking technique has several shortcomings. It leads to odd results, since it always attributes a 1 to the lowest and a 100 to the highest of considered values. This leads to rather extreme differences in dimension scores and becomes most evident in the second stage because only five markets

are considered. This can be exemplified, when considering the almost non-existing score of 1 for France on the dimension of political stability. Next, the technique is subject to subjectivity bias, since the weights are chosen based on Boyens experience and perceptions. Given the results in the first stage and the fact that no country managed to score high values on all dimension, final ranking heavily depends on the weights. The problem of subjectivity is also evident in the second and third stage, since the data rely merely on personal subjective insights of the Managing Director. This issue overlaps with the data-based limitations. A solution to escape this bias would be more objective measurable factors, which may alter the outcome. But due to the highly specified market, data is rarely existent and proxies need to be considered to reach measurable conclusions. At last, it needs to be mentioned that the findings are case specific and therefore should not be generalized to other similar companies.

The outcome of this work also has implications for further research. Three directions are crucial. First, further research needs to be conducted to close the gap of market selection regarding FDI and define general guidelines for an analysis. Second, alternatives to quantify and manage data need to be found to overcome the limitations of the ranking technique. Lastly, this work covers only the basis of the multistep process to complete a FDI. Based on this work, the detailed specification of entry mode is next in the process. In detail, a numerical case calculation (business plan) giving insight about the size and format of the office and on how the distribution channels should be designed needs to be developed to get clear objectives for the implementation of the FDI.

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